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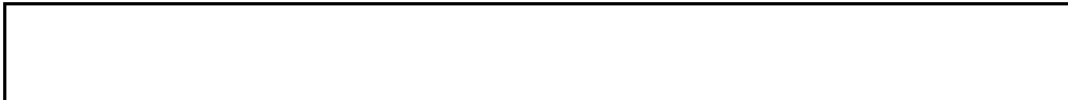


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C O N T E N T S

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar was generally strong in foreign currency exchanges yesterday in the first day of official trading since 2 March.

The only interventions by central banks took place in Japan and West Germany. The Bank of Japan sold some \$50 million to keep the dollar's value from rising too fast, as a seasonal increase in import settlements and a slowdown in the approval of export contracts produced increased dollar demand. The yen closed yesterday at about a 16.3-percent appreciation from its old central rate and a less than one-percent appreciation from its closing on 1 March. The Bundesbank sold more than \$8 million worth of Belgian francs and a much smaller amount of Swedish kroner to maintain the new European currency band. This intervention reflects the surprisingly weak early showing of the mark relative to other European currencies, as a result of some traders' fears that Bonn may have sacrificed too much by its latest revaluation.

The generally light activity yesterday indicates that most traders are taking a wait-and-see attitude. Despite the dollar's early strength in London, dealers there reported no substantial demand for dollars for commercial transactions, and European currencies soon regained some of their early losses when trading picked up in the afternoon. Those traders who speculated in marks and other strong currencies may well hold off repurchasing dollars until they get a clearer picture of payments and psychological trends. A preliminary analysis of balance-of-payments prospects in Japan and Western Europe suggests that pressures will build for further appreciations of the yen and mark and a depreciation of sterling.

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The Swiss banking community reportedly is skeptical about prospects for the joint float, and is against Swiss participation. Bankers not only object because of fears that Bern would have to support the weaker European currencies, but also on political grounds. There is an influential body of opinion that objects to any further diminution of Swiss neutrality and independence. A national referendum approved Swiss association with the EC in December, but only with the proviso that the Swiss association would not go beyond that of a free trade zone. Finally, there are fears of political repercussions if the current high level of the Swiss franc creates difficulties for export-oriented industries. Swiss bankers hope to peg the franc, but would insist on a rate somewhat lower than its current trading level.

Belgium and Luxembourg are the latest countries to impose an interest charge on non-resident commercial bank deposits. The Netherlands announced its intention to do so last week. West Germany and Switzerland have followed this policy for some time. On Friday, Paris announced an end to interest payments on non-resident deposits in French banks.

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NORTH KOREA - SCANDINAVIA: Pyongyang will shortly achieve its long-sought objective of a diplomatic presence in Western Europe. It is now almost certain that at least three of the Scandinavian countries--Sweden, Denmark, and Finland--will recognize North Korea shortly after the Nordic foreign ministers' meeting at the end of March; Norway and Iceland may not be far behind. The new recognitions would provide additional impetus to the growing international acceptability of the two-Korea concept that Pyongyang has been encouraging, and Seoul now seems reluctantly prepared to accept.

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